SULLIVAN, HILL, LEWIN, REZ & ENGEL
A Professional Law Corporation
Cynthia A. Fissel, SBN 164153
550 West "C" Street, Suite 1500
San Diego, California 92101
Telephone: (619) 233-4100
Fax Number: (619) 231-4372
fissel@shlaw.com

James S. Rigberg, Pro Hac Vice (Arizona Bar No. 015267)
MARISCAL, WEEKS, McINTYRE
& FRIEDLANDER, P.A.
2901 North Central Avenue, Suite 200
Phoenix, Arizona 85012-2705
Telephone: (602) 285-5000
Fax Number: (602) 285-5100
jim.rigberg@mwmf.com

Attorneys for Defendant CRISIS MANAGEMENT, LLC

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

YOU WALK AWAY, LLC, a California limited liability company,, Plaintiff, v. CRISIS MANAGEMENT, LLC, an Arizona corporation, and WALK AWAY PLAN, LLC, a business entity of unknown form, Defendants.	Case No. 08 CV 0529 WQH BLM **REPLY MEMORANDUM IN SUPPORT OF CRISIS MANAGEMENT, LLC' S MOTION TO DISMISS, STAY, OR TRANSFER VENUE TO THE DISTRICT OF ARIZONA** Date: May 19, 2008 Time: 11:00 a.m. Crtm.: 4 Judge: Hon. William Q. Hayes

I.

Introduction

On February 22, 2008, Defendant Crisis Management, L.L.C. ("Crisis Management") filed an application with the United States Patent and Trademark Office ("USPTO") for the marks "Walk Away Plan" and "www.walkawayplan.com." By letter dated February 29, 2008, Plaintiff You Walk Away, L.L.C. ("You Walk Away") advised that it had filed an application with the USPTO for its marks, "You Walk Away" and "www.youwalkaway.com." In the same letter, You Walk Away

alleged that Crisis Management's Walk Away Plan marks infringed on the You Walk Away marks. Crisis Management wanted its right to continue using the Walk Away Plan confirmed before the USPTO took any action with respect to the pending trademark applications. Accordingly, on March 13, 2008, Crisis Management filed an action seeking a Declaratory Judgment in the United States District Court for the District of Arizona (the "Arizona Action"). On March 21, 2008, You Walk Away commenced this action against Crisis Management. You Walk Away does not dispute that the parties and issues involved in these two lawsuits are the same. Accordingly, under the first-to-file rule, the Court should dismiss (or stay or transfer to the Arizona District Court) this action in favor of the earlier-filed Arizona Action.

You Walk Away argues, incorrectly, that the Court should decline applying the first-to-file rule because the Arizona Action was an "anticipatory, bad faith" lawsuit. Crisis Management brought the Arizona Action based on the dispute over which of two pending trademark applications should be approved by the USPTO, not because it received a specific, concrete threat of an imminent lawsuit. Contrary to You Walk Away's allegations, Crisis Management never sought more time to respond to the allegations of trademark infringement in the February 29, 2008 letter. Crisis Management ignored, if not outright rejected, You Walk Away's requests to engage in settlement discussions. Indeed, in the two direct communications between the parties' representatives that occurred before this lawsuit, Crisis Management advised that it did not believe it had infringed upon or otherwise violated any of You Walk Away's rights. You Walk Away's decision to wait to file suit rested on its own hope that Crisis Management might settle, not on anything Crisis Management said or did. Under the circumstances, no good reason exists for this Court to disregard the first-to-file rule.

II.

Crisis Management Did Not Bring the Arizona Action in Response to a Specific, Concrete Indication that Suit Was Imminent

You Walk Away has asserted that the Arizona Action was an "anticipatory" lawsuit. In the Ninth Circuit, "[a] suit is 'anticipatory' for the purposes of being an exception to the first-to-file rule if the plaintiff in the first-filed action filed suit on receipt of specific, concrete indications that a suit

by the defendant was imminent." *Guthy-Renker Fitness, L.L.C. v. Icon Health & Fitness*, 179 F.R.D. 264, 271 (C.D. Cal. 1998). You Walk Away never gave such an indication to Crisis Management.

You Walk Away's suggestion that its February 29, 2008 letter was an indication to Crisis Management of "imminent suit" is incorrect. This letter did not state that Crisis Management's failure to perform as demanded would result in filing "suit." Instead, You Walk Away made the veiled threat that it was "prepared to pursue all remedies available to enforce its rights" and would take "further legal action" if Crisis Management did not confirm it would discontinue using the Walk Away Plan marks within ten days. As reflected in the March 12, 2008 e-mail attached as Exhibit "1" to Chad Ruyle's Declaration, after the February 29, 2008 letter's ten-day deadline expired, You Walk Away indicated that it wanted to "work something out without resorting to litigation." The same e-mail states that if Crisis Management did not return Ruyle's telephone calls by the end of the day, he would "heed the advice" of his attorneys – without saying what that "advice" was.

To serve as an indication of "imminent suit," a demand letter must do something more than make "veiled threats of legal action." *Guthy-Renker Fitness*, 179 F.R.D. at 271. The demand letter in *Inherent.com v. Martindale-Hubbell*, 420 F. Supp. 2d 1093, 1099-1100 (N.D. Cal. 2006), for example, contained a lengthy history of the parties' dispute, an analysis of the harms allegedly caused, and a statement that "'unless settlement is reached within five (5) business days a lawsuit will be filed.'" *See also Coldwater Creek, Inc. v. Brighton Collectibles, Inc.*, 83 U.S.P.Q. 2d 1957, 2007 U.S. Dist. LEXIS 54780, 9 (D. Idaho 2007) (demand letter explicitly threatened "to file suit") (a copy of which is attached as Exhibit "1" to the Declaration of Cynthia A. Fissel). On the other hand, a demand letter stating that a party would "seek indemnification" if other party did not abide by license agreement "gave no indication that a lawsuit was imminent." *Bryant v. Oxxford Express, Inc.*, 181 F. Supp. 2d 1045, 1048 (C.D. Cal. 2000). Moreover, even a threat of imminent suit may dissipate when a claimant demonstrates that deadlines in a demand letter might not be enforced. *M.D. Beauty, Inc. v. Dennis F. Gross, M.D., P.C.*, 2003 U.S. Dist. LEXIS 27257, 13-14 (N.D. Cal. 2003) (a copy of which is attached as Exhibit "2" to the Fissel Declaration).

The District Court's treatment of the demand letter in *Royal Queentex Enterprises, Inc. v. Sara Lee Corp.*, 2000 U.S. Dist. LEXIS 10139 (N.D. Cal. 2000) (a copy of which is attached as Exhibit "3" to the Fissel Declaration) demonstrates that the February 29, 2008 letter was not sufficient to indicate that suit was "imminent." Though the USPTO had denied registration to its "Leg Avenue" mark, Royal Queentex continued to use it. On October 21, 1999, Sara Lee sent Royal Queentex a letter, stating that it hoped the matter could be resolved amicably, but demanding "prompt written assurances that Royal Queentex will immediately discontinue" any mark containing the words "leg" or "legs." Sara Lee's demand letter further stated:

> If we do not receive a response with these written assurances within fourteen (14) days of the date of this letter, L'EGGS Products has authorized this firm to take further legal action necessary and appropriate to enforce its valuable trademark rights.

2000 U.S. Dist. LEXIS 10139 at 5. The Court agreed that this letter "constituted specific, concrete indications of a *legal dispute*, but not specific, concrete indications that *suit was imminent*." 2000 U.S. Dist. LEXIS 10139 at 16 (emphasis added). The threat contained in the Sara Lee letter is identical to the February 29, 2008 letter's threat – "further legal action." You Walk Away, moreover, clearly indicated in Ruyle's communications that it was interested in settling, not litigating.

Under the circumstances, You Walk Away never provided a specific, concrete indication to Crisis Management that suit was imminent. Absent such an indication, You Walk Away cannot maintain that the Arizona Action was anticipatory or that the first-to-file rule should not be observed.

III.

Crisis Management Filed the Arizona Action Because of You Walk Away's Pending Trademark Application

Crisis Management's motivation for filing the Arizona Action was not any "threat" that may have appeared in You Walk Away's February 29, 2008 letter. Indeed, Crisis Management did not really believe that You Walk Away was going to file suit "any time soon." (*See* Supplemental Declaration of Paul Helbert, dated May 9, 2008 at ¶ 5 ("Supplemental Helbert Declaration")). The portion of that letter that caught Crisis Management's attention was the statement that You Walk

Away had applied for a trademark relative to the You Walk Away marks. (*See* Supplemental Helbert Declaration at ¶¶ 7, 8; Declaration of Paul Helbert, dated April 11, 2008 at ¶ 4 ("Original Helbert Declaration")). Crisis Management had no obligation to wait to have such a determination made before filing suit. In fact, "a declaratory judgment action is an appropriate vehicle to 'alleviate the necessity of waiting indefinitely for a patent owner to file an infringement action.'" *Guthy-Renker Fitness*, 179 F.R.D. at 272 (quoting *KPR, Inc. v. C&F Packaging Co., Inc.*, 1993 U.S. Dist. LEXIS, 20177, 30 U.S.P.Q. 2d (BNA) 1320, 1324 (N. D. Tex. 1993)). Crisis Management's use of a declaratory judgment suit to fulfill this purpose indicates that the Arizona Action was not anticipatory. (*See* Supplemental Helbert Declaration at ¶ 9).

You Walk Away's suggestion that the Arizona Action is anticipatory based on the delay between filing and serving the Complaint in that matter is incorrect. Under the Federal Rules of Civil Procedure, Crisis Management has 120 days to serve the Complaint on You Walk Away. Thus far, only 60 of those days have elapsed. Crisis Management has refrained from service while it decides whether to amend that Complaint, as a matter of right, to include other claims (including claims for trademark infringement and/or relating to copyright infringement allegations that did not appear in the February 29, 2008 letter). Regardless of the reason, however, simply delaying service does not mean that Crisis Management was "not alleviating the necessity of waiting indefinitely" for You Walk Away "to file an infringement action." *Guthy-Renker Fitness*, 179 F.R.D. at 272. Courts have concluded that service delays much greater than 60 days are not indicative of an action being "anticipatory." *See Guthy-Renker Fitness*, 179 F.R.D. at 272 (delay of 87 days); *Ward v. Follett Corp.*, 158 F.R.D. 645, 649 (N.D. Cal. 1994) (delay of almost four months).

IV.

Evidence of "Bad Faith" Sufficient to Justify Disregarding the First-to-File Rule Does Not Exist

Ordinarily, courts do not disregard the first-to-file rule even with respect to an anticipatory suit unless it is accompanied by some bad faith conduct on the part of the filing party. *Mead Corp. v. Stuart Hall Co.*, 679 F. Supp. 1446, 1450 (S.D. Ohio 1987). *See, e.g., Charles Schwab & Co., Inc. v. Duffy*, 1998 U. S. Dist. LEXIS 19606, 49 U.S.P.Q. 2d (BNA) 1862, 1864 (N.D. Cal. 1998)

(Court's quarrel was not with the fact that declaratory judgment plaintiff won the "race to the courthouse," but with the tactics employed to do so, such as misleading opponent as to its intentions); *Royal Queentex Enterprises, Inc. v. Sara Lee Corp.*, 2000 U.S. Dist. LEXIS 10139, 13-14 (N. D. Cal. 2000) (concluding that, generally, courts decline to exercise jurisdiction over anticipatory suits when a "plaintiff caused defendant to delay filing suit by representing that plaintiff was considering merits of claim").

Crisis Management did nothing to lead You Walk Away into delaying the commencement of this action. The following facts are undisputed:

- Paul Helbert, Crisis Management's General Manager, did not see the February 29, 2008 letter for at least a few days after Crisis Management received it. (Supplemental Helbert Declaration at ¶ 1; Original Helbert Declaration at ¶ 5).

- On March 8, 2008, Chad Ruyle of You Walk Away left a voicemail message for Crisis Management on the number shown on its website; no-one responded. (Declaration of Chad Ruyle at ¶ 4).

- On March 10, 2008 – the day on which the "demand" in the February 29, 2008 letter was to expire – Ruyle again left a voicemail message for Crisis Management. (Declaration of Chad Ruyle at ¶5).

- On March 11, 2008 – the day after the February 29, 2008 letter expired – Helbert and Ruyle had a telephone conversation. (Supplemental Helbert Declaration at ¶ 2; Ruyle Declaration at ¶ 6).

- In that telephone conversation, Helbert advised that he did not believe that Crisis Management's use of Walk Away Plan marks infringed or otherwise violated You Walk Away's rights. (Supplemental Helbert Declaration at ¶ 3; Original Helbert Declaration at ¶ 7).

- Helbert advised that he would be consulting with Crisis Management's attorneys to determine how to respond to the February 29, 2008 letter. (Supplemental Helbert Declaration at ¶ 4; Original Helbert Declaration at ¶ 7).

- On March 12, 2008, Ruyle sent an e-mail stating that You Walk Away wanted to "work something out without resorting to litigation." The same e-mail indicated that Helbert was not responding to Ruyle's telephone calls that day. (Ruyle Declaration at ¶ 7).

- On March 13, 2008, counsel for You Walk Away telephoned counsel for Crisis Management. In this conversation, counsel for Crisis Management reiterated Crisis Management had not infringed or otherwise violated You Walk Away's rights. (*See* Supplemental Declaration of James S. Rigberg at ¶ 5).

You Walk Away has presented no evidence, that Crisis Management ever initiated any contact with You Walk Away; in fact, accepting, for the moment, that You Walk Away's declarations are accurate, Crisis Management appeared to take pains *not* to respond to You Walk Away. Crisis Management disputes that its representatives ever asked for more time to do anything relative to the February 29, 2008 letter. Even You Walk Away, however, does not dispute that, in both communications between its personnel and those of Crisis Management, Crisis Management maintained that its use of the Walk Away Plan marks did not infringe on You Walk Away's rights.[1]

Based on these facts, Crisis Management (a) consistently took the position that no infringement claims existed and (b) at worst, was unresponsive to You Walk Away's settlement overtures. Ruyle's March 12, 2008 "confirmation" e-mail certainly reflects *his* desire to "avoid litigation" and "work something out" with Crisis Management. Curiously absent from the same e-mail is any confirmation that, in their March 11, 2008 conversation, Helbert ever mentioned that he felt the same way. If anything, the March 12, 2008 e-mail's references to Helbert failing to "call back" Ruyle confirm that Crisis Management was not even interested in talking about, let alone settling, the trademark infringement allegations. In the only other communication between the parties' representatives, counsel for You Walk Away raised new allegations about copyright infringement that had nothing to do with the February 29, 2008 letter. Counsel for Crisis Management – having already explained his client's position relative to the allegations in the February 29, 2008 letter – stated that he would have to discuss the new allegations with his client. To the extent You Walk Away relied on this statement as a basis for believing Crisis Management was interested in negotiating, such reliance was unreasonable.

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[1] In the March 13, 2008 conversation between counsel for the parties, counsel for You Walk Away alleged for the first time that Crisis Management had created its website using You Walk Away's source code, and that copyright infringement and/or other claims based on the "look and feel" of the website may exist. (*See* Supplemental Rigberg Declaration at ¶ 6). Counsel for Crisis Management advised that he would need to discuss these allegations with his client; however, counsel for Crisis Management did not request additional time to deal with the allegations in the February 29, 2008 letter. (*See* Supplemental Rigberg Declaration at ¶ 7).

The cases on which You Walk Away relies merely illustrate the difference between facts that support a finding that of bad faith and the facts in this case. In *Xoxide, Inc. v. Ford Motor Co.*, 448 F. Supp. 2d 1188 (C.D. Cal. 2006), Ford Motor Co. advised that Xoxide was violating its trademarks in four different ways. Though Xoxide advised that it disagreed, it partially complied with Ford's demands. Ford responded by insisting on full compliance with its demands. In reply, Xoxide sent what it characterized as a confidential settlement discussion and offer which included another small concession to Ford's demands. Xoxide also sought additional time to consider and respond to the balance of Ford's demand. Instead, after sending the reply, Xoxide filed a declaratory judgment action. The Court, not surprisingly, concluded that, while Ford was attempting to settle, Xoxide only pretended to use its best efforts to negotiate so that it could preemptively file suit. Indeed, Xoxide's own attorneys admitted that, while settlement was still on the table, it commenced the declaratory judgment action "to 'keep our place as to filing dates and times' in the event that 'discussions later broke down.'" 448 F. Supp. 2d at 1194. In *Xoxide*, unlike here, the declaratory judgment plaintiff's representatives took affirmative steps to create the impression that settlement was and remained a possibility when it was not.

Likewise, the decision to ignore the first-to-file rule in *Z-Line Designs, Inc. v. Bell'O International, L.L.C.*, 218 F.R.D. 663 (N.D. Cal. 2003) and *Mediostream, Inc. v. Priddis Music, Inc.*, 2007 U.S. Dist. LEXIS 73707 (N.D. Cal. 2007) rested on facts that are different than those presented here. In *Z-Line Designs*, the declaratory judgment plaintiff's attorneys requested two extensions of the deadline the infringement claimant had imposed for reaching a settlement. On both occasions, moreover, the infringement claimant had advised that failure to settle would result in a lawsuit. In *Mediostream*, the declaratory judgment suit was filed after the plaintiff's attorney was asked whether he could accept service of the infringement complaint that was being prepared. In neither case did the declaratory judgment plaintiff simply take the position that no infringement had occurred and ignore the claimant's invitations to enter into settlement negotiations.

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V.

You Walk Away Has Not Identified Any Other Grounds for Disregarding the First-to-File Rule

You Walk Away contends that the Arizona Action may never proceed because "there is no certainty that the Arizona district court will exercise its declaratory judgment jurisdiction." (See Opposition, p. 8). You Walk Away has cited no authority to support the position that generalized fear of a district court not exercising its jurisdiction is grounds for refusing to stay or transfer a case. You Walk Away's purported fear, moreover, is not well-founded. In the first instance, the pending, competing trademark applications and the dispute between the parties over whether Crisis Management's marks infringe or not is the proper subject of a declaratory judgment claim. In the second instance, given the factors typically considered in determining whether a District Court should exercise its discretionary power to hear a declaratory judgment action, the likelihood that the Arizona Action will proceed is high. *See e.g. National Chiropractic Mut. Ins. Co. v. Doe*, 23 F. Supp. 2d 1109, 1115 (D. Alaska 1998) (discussing these factors).

VI.

Conclusion

For the foregoing reasons, Crisis Management's Motion to Dismiss, Stay, and/or Transfer this action should be granted.

Dated: May 12, 2008

MARISCAL, WEEKS, McINTYRE & FRIEDLANDER, P.A.

AND

SULLIVAN, HILL, LEWIN, REZ & ENGEL
A Professional Law Corporation

By: */s/ Cynthia A. Fissel*
Cynthia A. Fissel
Attorneys for Defendant
CRISIS MANAGEMENT, LLC